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October 17, 2006

AGENDA ITEM 3

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Blue Shield of California:
Regional Council Update
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. BACKGROUND AND ANALYSIS:**

On August 15, 2006 Blue Shield of California (Blue Shield) provided the Health Benefits Committee with an overview of its Regional Council concept, which was developed in response to the CalPERS Board's request that Blue Shield communicate with and engage appropriate constituent groups regarding its June 2006 recommendation for changes to 13 Direct Contract (DC) and Exclusive Provider Organization (EPO) counties covered by the Blue Shield network. These counties are as follows:

EPO – Colusa, Lake, Mendocino, Plumas, and Sierra
DC – Butte, portions of El Dorado County, Glenn, Mariposa, Napa, San Luis Obispo, San Mateo, and Sonoma

Aimed at providing transparency and education related to health care cost drivers in each of these communities, Blue Shield is meeting with employers and member organization leaders in the above-mentioned DC/EPO counties*. In these Regional Council meetings, Blue Shield is:

- ♦ communicating the health care cost drivers for the specific county (these vary from county to county)

* San Mateo has been removed from the Regional Council targets because, as a metropolitan area, its cost driver issues differ from the other DC/EPO counties located in more rural settings and will require Blue Shield take a different approach to manage trends.

- ◆ sharing its recommendations for changes necessary to preserve a managed care model (HMO) for CalPERS beneficiaries in these counties, where applicable, and
- ◆ seeking support and assistance from employers and member organization leaders to implement these changes.

As of this date, Blue Shield has convened two Regional Councils; in Colusa county on September 21st and in Lake county on September 27th. The remaining Regional Councils have been scheduled, including follow-up meetings in each county (refer to Attachment 1 for the current Regional Council schedule). The Colusa and Lake Regional Councils were well-attended by both employer and CalPERS member (employee and retiree) organizations.

In Colusa and Lake counties, Blue Shield shared some of the common challenges contributing to the EPO counties having a disproportionate impact on CalPERS health care premiums with Blue Shield:

- ◆ Historically, HMOs have been unable to offer cost effective products in many of these counties because providers are not typically managed care friendly since their primarily rural location does not demand it, and
- ◆ Many specialized clinical services are unavailable in these communities, often requiring CalPERS members to leave the community to access care.

Blue Shield communicated the results of substantial data analyses conducted to better understand the drivers of health care costs in Colusa and Lake counties. Both counties experience the following:

- ◆ Significantly higher costs for facility services as compared to the average Northern California CalPERS benchmark
- ◆ Significant out-of-network services that, if brought back in network, could provide health care cost savings:
 - Colusa - 75% of outpatient services are leaving the community and of those, 42% are outside of the CalPERS HMO network. Bringing outpatient cases of these types back into the CalPERS HMO network will yield approximately 30% savings in the future.
 - Lake - Blue Shield anticipates 30% savings on outpatient cases and 70% savings for inpatient cases brought back into the CalPERS HMO network.
- ◆ Burden of illness scores in both counties are significantly higher than the average Northern California CalPERS score, which is consistent with a PPO population, as members tend to access care on an episodic basis rather than focus on prevention as in an HMO model.

Blue Shield informed both audiences that significant costs in these counties stem from the fact that physicians have been unwilling to sign managed care contracts containing referral and utilization management requirements. Thus, CalPERS

members are offered an EPO product, which has the same benefit terms as an HMO, however members are able to choose from a broad network of Blue Shield PPO providers, and can self-refer health care services with no primary care physician relationship required. Under the EPO model, health care costs are dramatically increased by:

- ◆ Substantial services going outside of the CalPERS HMO network, and
- ◆ Health care services are unmanaged by a primary care physician which translates to members either foregoing medical care until hospitalization is necessary and/or the duplication of services.

Blue Shield explained that converting from an EPO to a direct contract HMO model and preserving a managed care model in these communities will provide members with better care coordination, disease management, and prevention and wellness activities. And, that a direct contract model will also ensure providers refer future cases within the CalPERS HMO network resulting in critical cost savings. It was noted that direct contracts with the physicians are required because independent physician organizations do not exist in these communities, and so neither delegation for medical management nor capitation for medical services is possible at this time. Blue Shield further reported that their Provider Relations Department had contacted many of the primary care physicians in each community to solicit their interest, and that most providers contacted expressed interest in further discussions.

As of this writing, Blue Shield continues to contact physicians in these communities informing them of the need to convert to HMO contracts to preserve a managed care option for their patients. In addition, as a result of the Regional Council meetings and the interaction and interest of the attendees, Blue Shield is preparing tools requested by participants to enable them to assist Blue Shield in contracting and conversion efforts. These tools will include a listing of physicians who will not sign managed care contracts (for each applicable county), a sample letter to providers to communicate members' desire to maintain a managed care model in their community, as well as draft newsletter articles and telephone scripts for members.

Blue Shield has also established a communications channel via email to update these and other Regional Council participants on their progress, as well as to serve as a vehicle for mobilizing employers and member organizations to communicate with physicians in their communities.

CalPERS staff and other member plans (Blue Cross and Kaiser Permanente) attended these Councils and participated during the question and answer phase, as appropriate. It is our observation that the Councils are well received by the employers and member organization leaders.

Kathlyn Mead, Vice President, CalPERS Sector, Blue Shield of California, will be in attendance at the October 17, 2006 Health Benefits Committee to present Attachment 2 and additional information about these and future Regional Councils.

V. STRATEGIC PLAN:

This Item supports Goal X of the strategic plan which states, "Develop and administer quality, sustainable health benefits programs that are responsive to and valued by enrollees and employers."

VI. RESULTS/COSTS:

This Item is presented for information only.

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